

Diagnostic Sector



Diagnostic Sector

Indian diagnostic sector likely to deliver double-digit growth

The diagnostic industry has emerged as an attractive play in India's growing healthcare sector and is one of the fastest growing services in the country. The domestic diagnostic industry is estimated at USD9bn (around INR 675bn) and is expected to grow at a compounded annual growth rate (CAGR) of ~10% over the next 5 years. Growth will be primarily driven by change in demographics, increase in lifestyle diseases, and higher income levels across all strata of society, rise in preventive testing, deeper penetration with asset-light expansion, and spread of healthcare services and insurance.

The diagnostic segment is a critical component of the healthcare sector. Globally, ~80% of physician diagnoses are a result of laboratory tests. There are mainly 3 types of tests: Routine, clinical lab and specialty tests.

- Routine tests: Common tests like sugar, cholesterol, HIV, pap, pregnancy, etc.
- Clinical lab tests to monitor diseases and drug treatments
- Specialty tests: Genetics, immunology, oncology, endocrinology and other critical segments

The Indian diagnostic industry is highly fragmented and under-penetrated despite the presence of over 1 lakh labs. Diagnostic chains command ~16% market share. The 4 major players – Dr Lal PathLabs (DLPL), Metropolis Healthcare (METROHL), SRL Diagnostics (SRL) and Thyrocare Technologies – have a share of ~6%. So, there is a huge opportunity for national players to consolidate and for organic expansion.

The industry is broadly segregated into pathology testing and imaging diagnostic services. Pathology testing (in-vitro diagnosis) includes sample collection in the form of blood, urine and stool. This is followed by the sample's analysis using laboratory equipment and technology to derive useful clinical information for assisting in patient treatment. The imaging diagnostic segment consists of more complex tests like computed tomography (CT) scans and magnetic resonance imaging (MRI) and other highly specialised tests like positron emission tomography (PET)-CT scans. As per estimates, the pathology segment contributes ~58% of total market revenue.

With private diagnostic chains taking the lead with superior and quality services, highly accurate and wider test menu -- resulting in market share gains -- we expect consolidation in the sector going forward. Currently, only 1% of labs are National Accreditation Board of Laboratories (NABL) and/or College of American Pathologists (CAP) accredited. Only a few large national players like SRL, DLPL, METROHL, Thyrocare, Max Healthcare and Apollo Clinic have accredited labs.

We prefer diagnostics sector in healthcare services on account of huge opportunity market and national players will be the major beneficiaries. We prefer Metropolis Healthcare on account of a) wide test menu; b) Regular addition of labs/PSCs to remain in close proximity to its customers; c) Benefits of economies of scale along with stable operating margin and return profile; d) Diversified customer base: B2B, business-to-government, B2C; e) Asset-light and hub & spoke model; and f) Technology initiatives to integrate systems and streamline processes.

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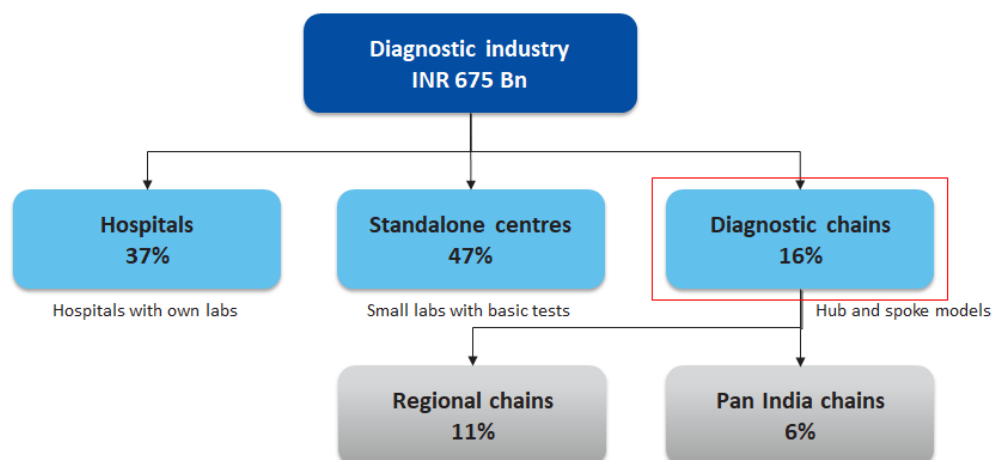
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Indian Diagnostic Industry – Structure

Exhibit 1: Indian diagnostic industry – Market structure



Indian diagnostic industry – Positioning

Exhibit 2: Indian diagnostic industry – Break-up

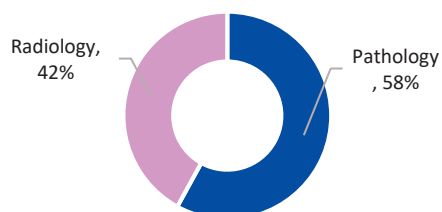


Exhibit 3: Referrals constitute lion's share of Indian diagnostic industry

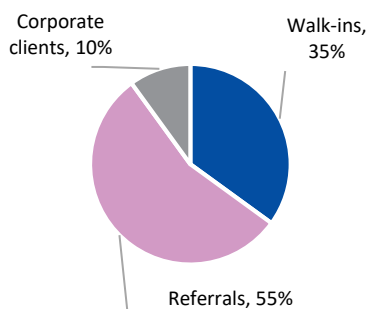
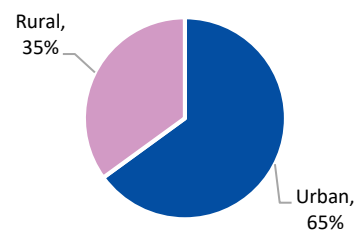
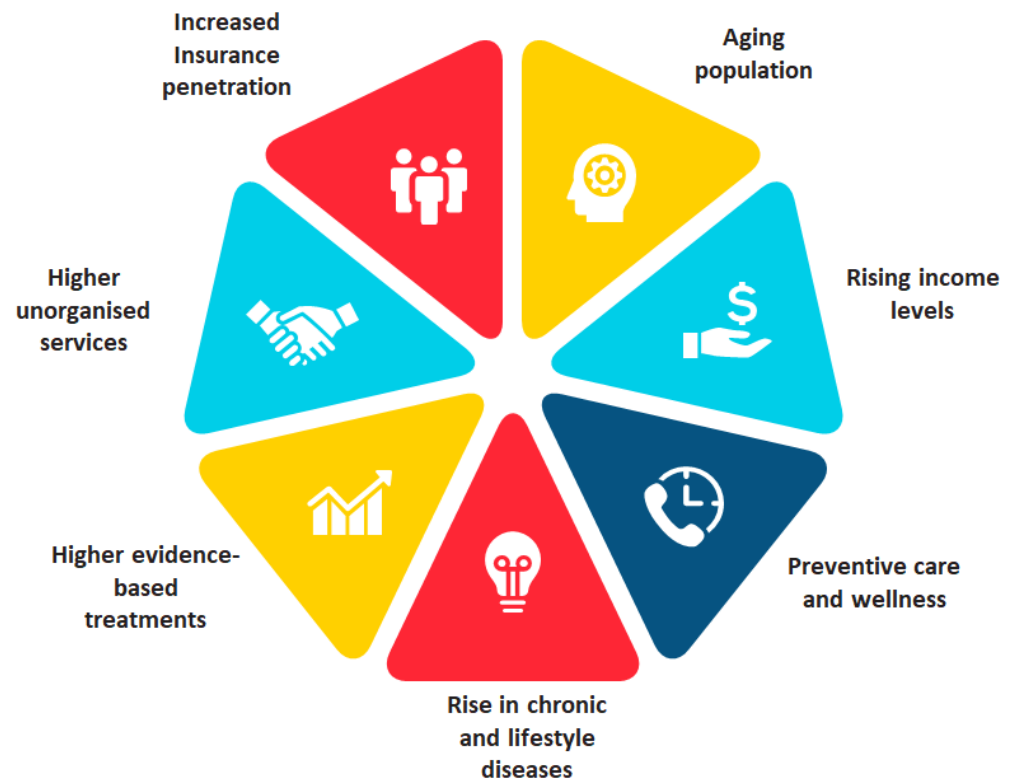


Exhibit 4: Market mix between urban and rural



Source: Edelweiss Professional Investor Research

Exhibit 5: Indian diagnostic industry – Major growth drivers

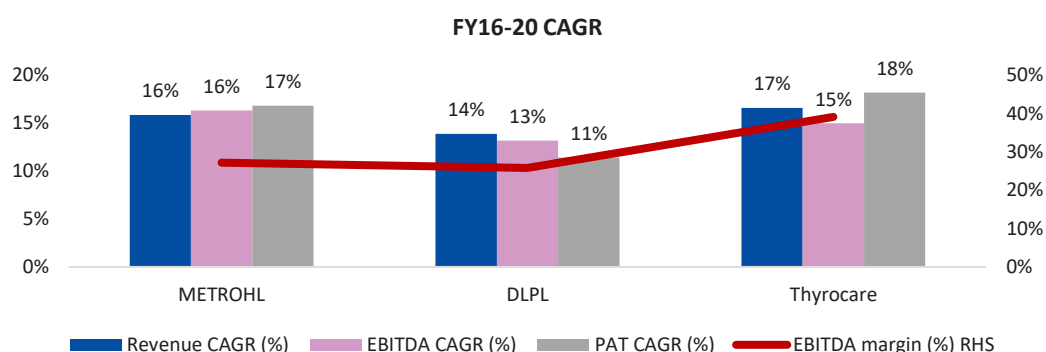


I. National diagnostic players – Delivering consistent growth

A huge addressable market, with under-spending/under-penetrated healthcare services in India, provides demand longevity to players with reach, brand and quality service. The fragmented nature of the industry, healthy growth of the sector and scalable business, provides a huge opportunity for prominent players to scale up in their core markets as high volumes drive cost benefits.

The major challenge for the diagnostic players is not capital constraints to drive scale but the local referral ecosystem. Thus, players have to focus on brand value to gain in the referral ecosystem, deepen penetration and upsell complex tests.

Exhibit 6: Major 3 national diagnostic players – Maintaining healthy growth momentum

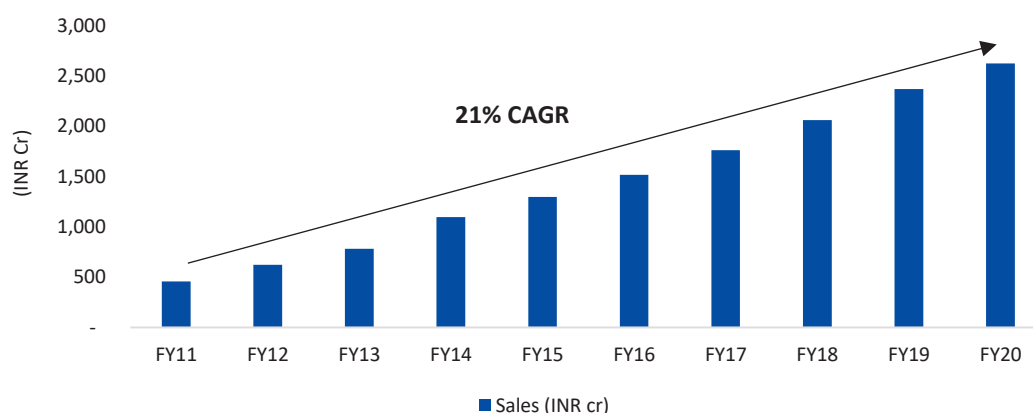


Source: Edelweiss Professional Investor Research

National diagnostic players – Growing faster than the sector

The 3 listed national players in the diagnostic space have delivered healthy growth in the past 10 years. Consolidated sales of all 3 players grew 21% over FY11-20 and is expected to outperform the sector in coming years on account of consolidation, increase in brand penetration and quality of service. The major players are continuously increasing incremental sales per annum, which improved to over INR 300 crore during FY12-20 from around INR 160 crore.

Exhibit 7: National diagnostic players delivered healthy growth



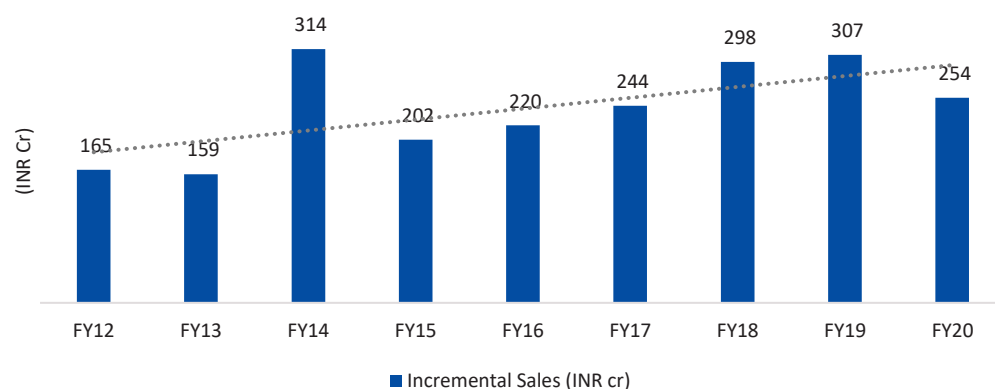
Source: Edelweiss Professional Investor Research

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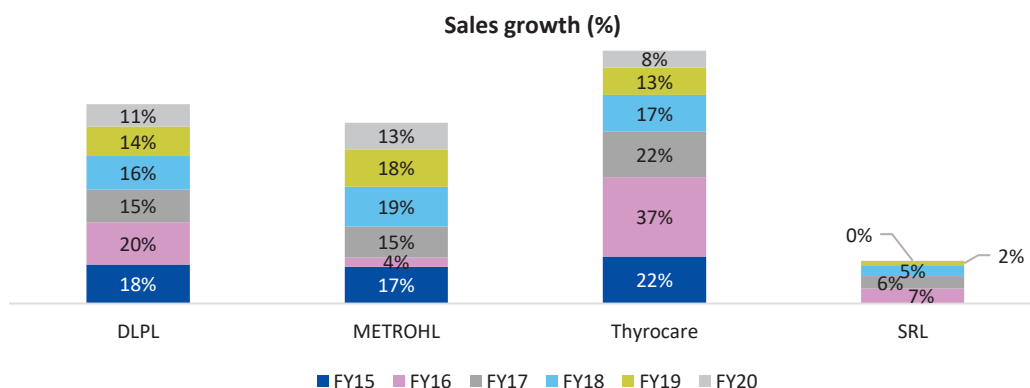
National players
improving margins
with scale and
quality services

Exhibit 8: National diagnostic players – Incremental sales per annum improved



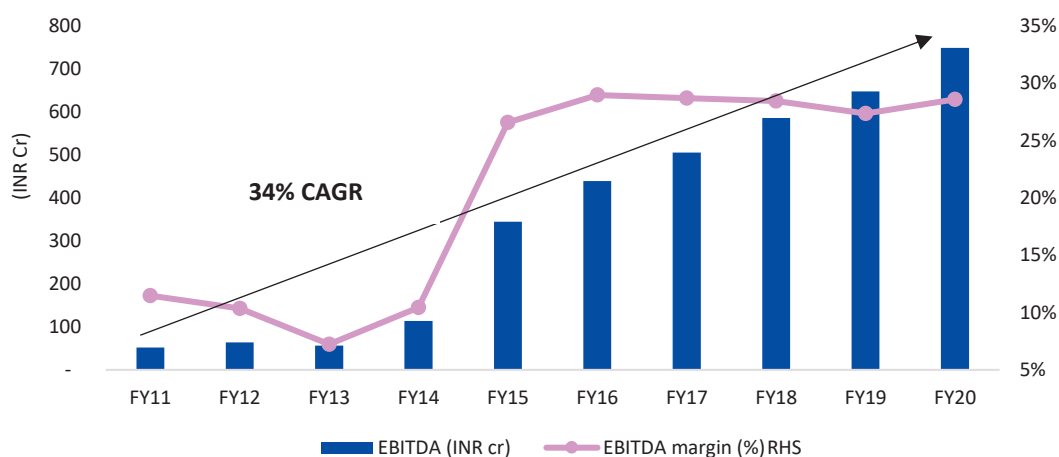
Source: Edelweiss Professional Investor Research

Exhibit 9: National diagnostic players – Sales growth (%)



Source: Edelweiss Professional Investor Research

Exhibit 10: Margins for national diagnostic players improve through quality service



Source: Edelweiss Professional Investor Research
Note: Considered sales of DLPL, METROHL, Thyrocare

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Exhibit 11: Increase in penetration levels reflects in the number of patients

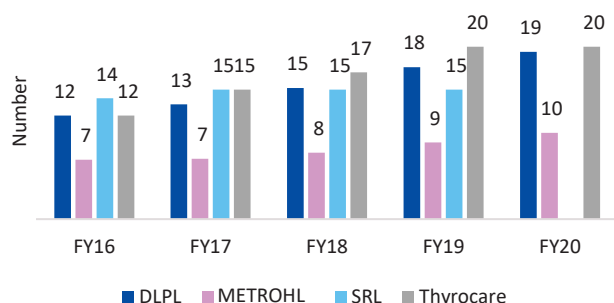
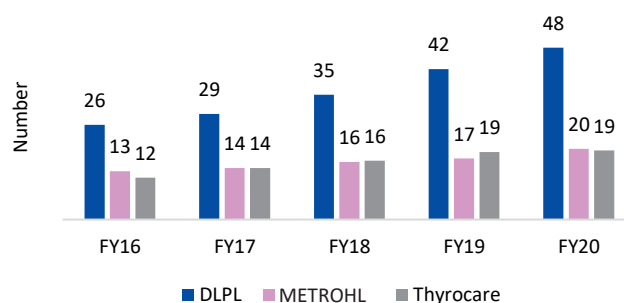


Exhibit 12: Deepening network resulted in increase in tests



Source: Edelweiss Professional Investor Research

Exhibit 13: B2B and B2C business mix

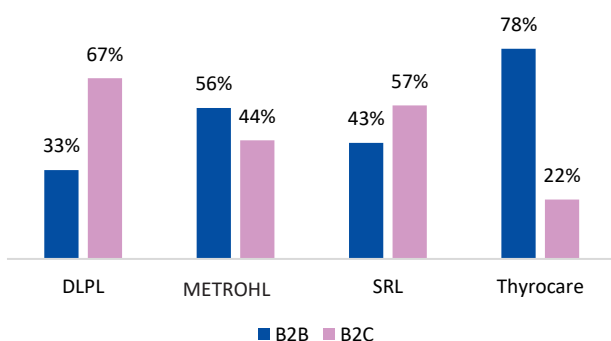
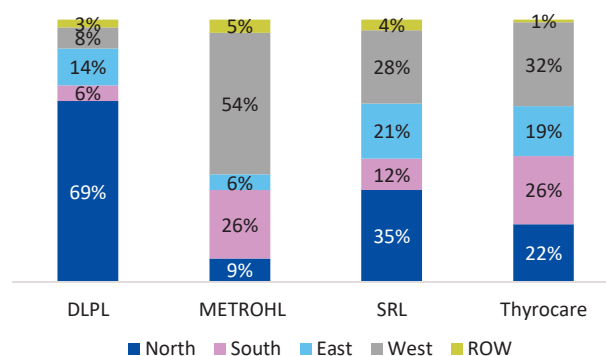
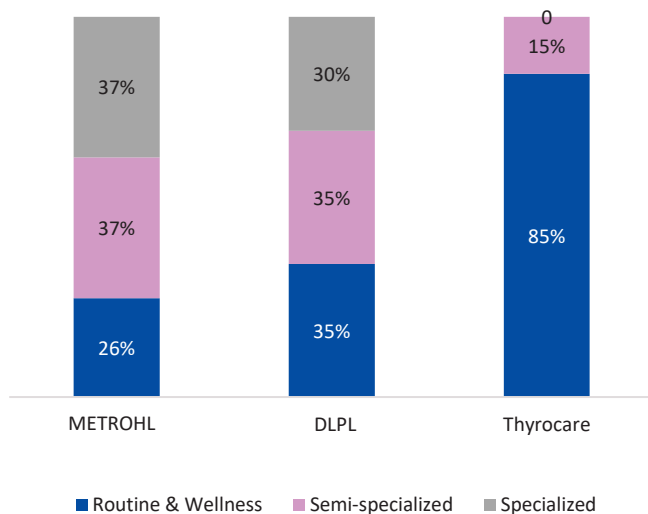


Exhibit 14: Geographical sales mix – Players focus on regions to grow their core market



Note: ROW-Rest of world

Exhibit 15: Classification of tests



Routine & wellness:

- Hemogram
- Biochemical parameters
- Lipid profile
- Liver function test
- Kidney function test

General tests:

- Random urine analysis
- Stool test

Semi-specialised tests:

- Thyroid function tests
- Vitamin tests

Specialised tests:

- Gastric cancer marker CA 72.4
- Pancreatic cancer marker CA 19.9
- HLA DNA typing
- Hepatitis C viral RNA

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Exhibit 16: Realisation per test to improve with specialised tests

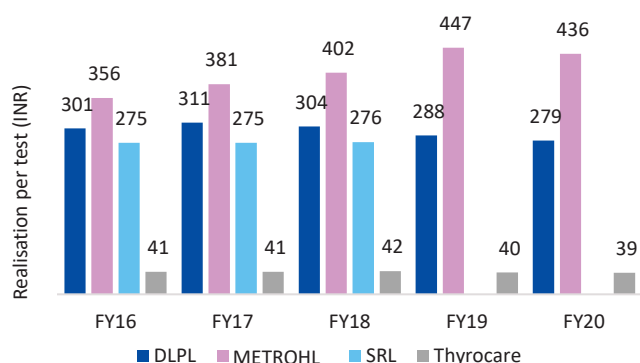
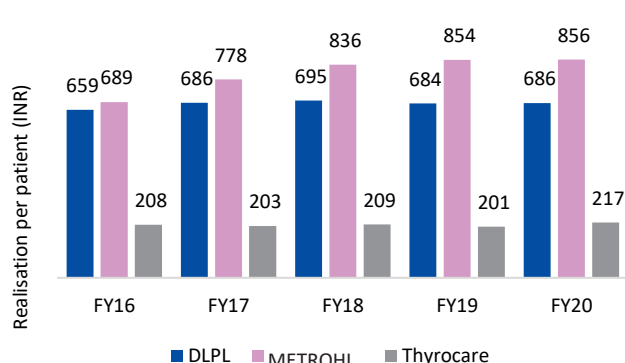


Exhibit 17: Realisation per patient reflects brand and quality



Source: Edelweiss Professional Investor Research

Exhibit 18: EBITDA per test defines profitability

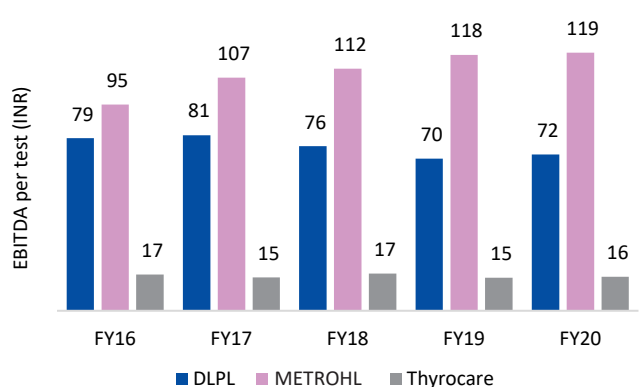
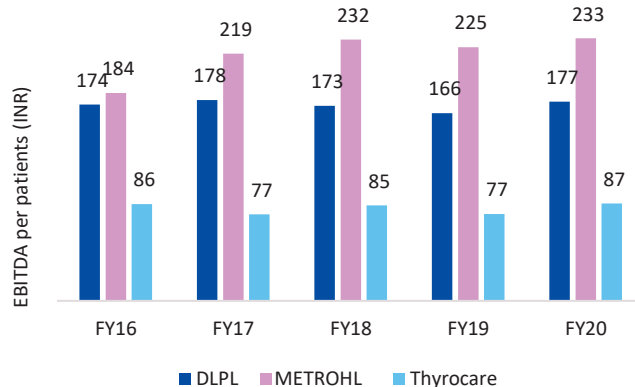


Exhibit 19: EBITDA per patient: A focus area



Source: Edelweiss Professional Investor Research

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Exhibit 20: Diagnostic chain well positioned to improve their operating parameters

Parameter (FY20)	METROHL	DLPL	SRL	Thyrocare
Number of patients visited (million)	10	19.4	15	20
Revenue per patient (INR)	856	686	677	200
Revenue (INR crore)	856	1.330	1.016	400
Tests and profiles	4,099	4,953	3,700	747
Number of central laboratories	1	1	0	1
Number of regional references	13	1	4	9
Number of other labs	111	214	400	0
Number of collection centres	2,731	3,095	1,400	6,342
Number of patient touchpoints	Over 10,000	6,995	Over 8,200	Over 30,000
B2C (% of revenue)	44	67	57	22
Tests	Routine & wellness: 26% Semi-specialised: 37% Specialised: 37%	Routine & wellness: 35% Semi-specialised: 35% Specialised: 30%		Routine & wellness: 85% Semi-specialised: 15% Specialised: 0
Wellness (% of revenue)	8	12	4	51
Advances and promotion (% of sales)	1.7	2.8	2.8	2.8
Geographic strength	West and south	North	Pan India	Pan India

Source: Edelweiss Professional Investor Research

Exhibit 21: Improved financials of major diagnostic chains which dominate the sector

FY16-20 (average)	METROHL	DLPL	SRL	Thyrocare
EBITDA margin	27%	26%	20%	39%
Depreciation and amortisation	3%	4%	6%	6%
EBIT margin	24%	22%	13%	33%
Interest burden	1%	0	2%	0
PBT margin	23%	22%	11%	33%
Tax burden	8%	5%	4%	12%
PAT margin	16%	17%	7%	24%
Fixed asset turnover	3.3	6.7	0.9	1.9
Asset turnover	0.9	1.5		0.8
RoAE (%)	30	27	7	20
Debt-to-equity ratio	0	0	1.2	0
RoACE (%)	39	38	14	31
RoIC (%)	47	78	14	25
OCF (INR crore)	138	203		109
FCF (INR crore)	87	33		17
Working capital days	14	(44)		57
P/E (FY22E)	32x	40x		19x

Source: Edelweiss Professional Investor Research

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National players have majority of accredited labs in the country, focus on quality

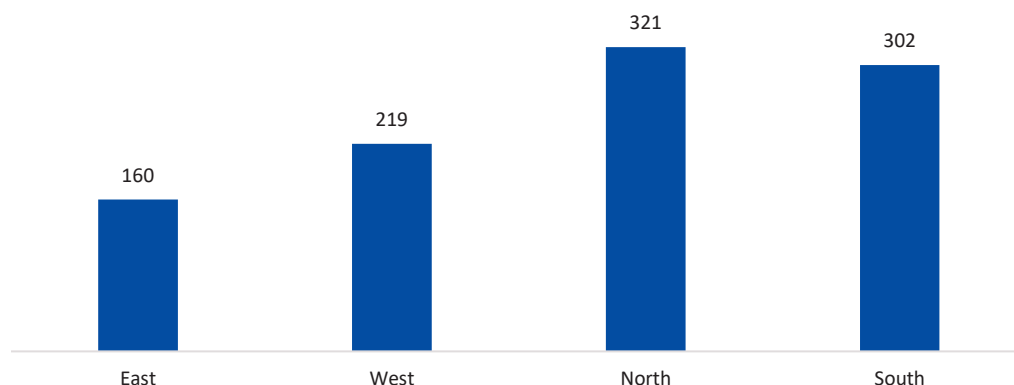
National diagnostic players focus on quality through their accredited lab network has helped them establish a brand for themselves in their core market of operation. There are around 1,216 NABL accredited labs, which is ~1% of total labs in India and works out to less than 1 lab per million. The top 4 players have the maximum number of NABL accredited labs. Though the number of accredited labs in India have been growing at 16% CAGR to 1,216 in 2020 from 576 in 2015, there is still a long way to go to reach the numbers of peer nations such as the UK, US and Australia, which have more than 10 labs per million. Quality will be the key future growth driver for the diagnostic industry, where national players are ahead of sector peers.

Exhibit 22: NABL accredited labs state-wise

States	No	States	No
Maharashtra	116	Gujarat	54
Karnataka	90	Haryana	44
Delhi	156	Jharkhand	12
Tamil Nadu	73	Kerala	36
MP	12	Manipur	7
UP	70	Meghalaya	3
Kolkata	90	Mizoram	2
Rajasthan	33	Nagaland	2
Himachal Pradesh	2	Odisha	9
Andhra Pradesh	36	Punjab	24
Telangana	65	Sikkim	1
Assam	23	Tripura	1
Bihar	10	Uttarakhand	12
Chhattisgarh	1	Chandigarh	11
Goa	3	Jammu & Kashmir	2
		Puducherry	2
		Others	214

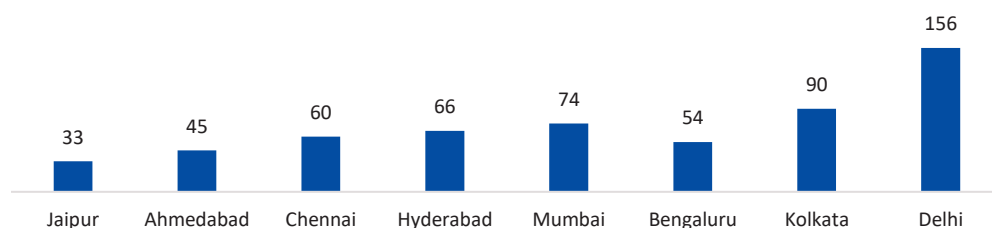
Source: Edelweiss Professional Investor Research

Exhibit 23: North and south India have the maximum number of NABL labs



Source: Edelweiss Professional Investor Research

Exhibit 24: Major cities have higher number of NABL accredited labs



Source: Edelweiss Professional Investor Research

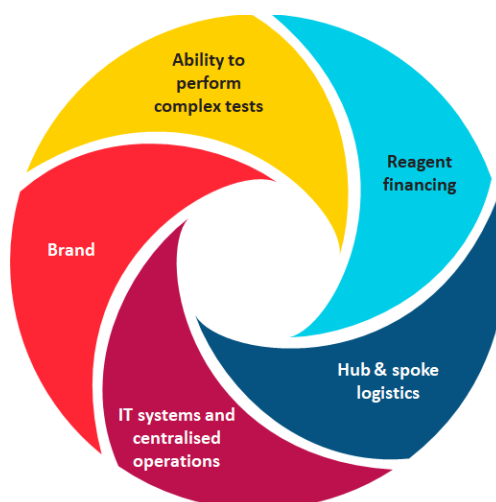
National diagnostic players poised to gain market share

Diagnostic players, with revenue above INR 100 crore, are profitable with better operating margins as the benefits of scale in test coverage and market penetration brings operating leverage.

Benefits of scale:

1. Diagnostic companies procure their main raw material of chemicals/reagents from equipment manufacturers. Moreover, machines are supplied to them free of cost, lowering their upfront capex requirement for expansion. This arrangement is available to scaled up players only as they can procure reagents in bulk.
2. Large organised diagnostic chains are in a position to perform high revenue generating complex tests.
3. Their strong brand visibility and widespread network of labs and patient service centres attracts more B2C revenue.
4. Doctors' associations play a crucial role in growth, which is driven by a strong brand
5. The hub and spoke model ushers cost efficiencies with bulk testing and increased penetration.
6. Their efficient IT infrastructure, centralised operations and streamlined pan India processes help them gain market share.

Exhibit 25: Scale benefits of national chains



Source: Edelweiss Professional Investor Research

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METROHL has the premium positioning

II. Diagnostic industry – Pricing depends on brand and reach

Diagnostic players continuously see minimum price increases of 0.3% to 0.5% per annum to cover medical cost inflation. Easing of private equity (PE) deal momentum may provide relief on pricing competition and frequency of hikes. The dominant brands in their core region regulate pricing. However, this discipline is restricted to regions as no national player who can dominate pricing across the country. Though the price hikes are increasingly coming under the scrutiny of regulators and the government, it is still a free run for diagnostic players so far.

Exhibit 26: National diagnostic players – Pricing of key tests

Average test prices (INR)	General routine	Diabetes	Thyroid	Liver profile	Cancer
DLPL	500	130	520	750	1,185
METROHL	650	145	530	730	1,110
SRL	630	130	430	740	1,380
Thyrocare	600	120	400	400	-

Source: Edelweiss Professional Investor Research

Exhibit 27: Test package offer – METROHL is charging a higher premium on test packages

Thyrocare	Arogyam 1.3	Arogyam 1.4	Arogyam 1.8	Arogyam X
Price (INR)	1,000	2,500	3,400	4,700
No. of tests profiles	12	14	23	28
METROHL	Healthy youth plus (Over 25 years)	Healthy master plus (Over 35 years)	Healthy women plus (Over 35 years)	Healthy senior plus (Over 55 years)
Price (INR)	3,600	4,800	5,500	6,200
No. of tests	21	33	27	39
DLPL	Swasth super 1	Swasthfit tax saver advance	Swasth super 3	Swasth super 4
Price (INR)	999	5,000	1,999	2,299
No. of tests	28	46	28	48
SRL	Complete care essential	Complete male & female care	Complete care advance	Complete care
Price (INR)	1,399	1,999	1,999	3,199
No. of tests	9	18	16	22
Suburban	Express mini	Express package	Women express	Express plus
Price (INR)	2,500	4,200	4,200	4,700
No. of tests	8	17	17	19

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Exhibit 28: Price comparison of common pathology tests – Region wise

Region	North		Central	East	West			South	
Diagnostic centre	DLPL	Lifeline Labs	DLPL	Suraksha	Suburban	METROHL	SRL	Thyrocare	Vijaya
Major cities	New Delhi		Bhopal	Kolkata	Mumbai			Hyderabad	
CBC-blood test	350	280	200	480	230	310	550	300	350
Lipid profile	140	920	140	180	200	1,400	150	400	650
Glucose	80	80	80	60	80	90	80	100	100
Kidney profile	800	780	450	1,150	1,250	1,900	1,520	-	800
Liver function	800	780	550	600	700	1,475	900	500	800
Vit-B12	1,550	1,600	1,100	1,000	1,000	1,650	1,650	800	1,500
Thyroid profile	950	900	500	550	700	750	550	400	600
Total (INR)	4,670	5,340	3,020	4,020	4,160	7,575	5,400	2,500	4,800

Source: Edelweiss Professional Investor Research

Exhibit 29: Price comparison of common radiology tests

	Kolkata		Chennai	
Radiology tests price (INR)	Suraksha Diagnostics	METROHL	Dr Kamakshi Memorial Hospitals	Vijaya Hospital
X-ray	360	450	700	1,000
USG	2,250	1,500	1,200	1,500
CT scan	2,000	3,000	-	4,000-7,000
MRI	6,000	3,000-7,000	10,200	8,500
DEXA scan	-	-	6,700	-
Mammography	1,750	2000	2,100	2,000
PET-CT scan	-	-	19,000	-

Source: Edelweiss Professional Investor Research

Sector still at the nascent stage, huge opportunity ahead

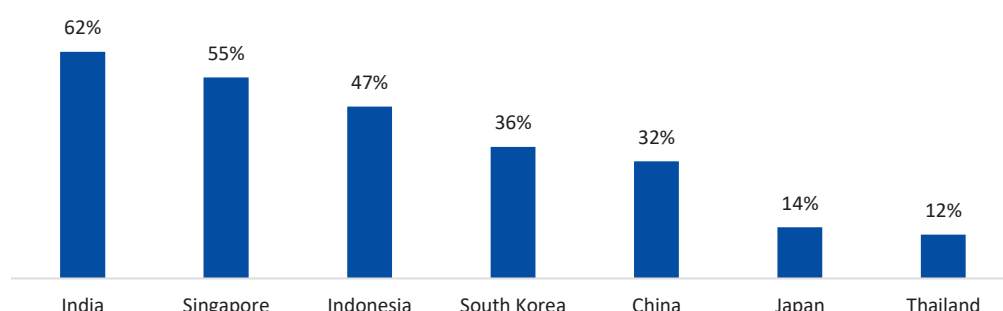
III. Expected increase in health insurance coverage

Most diagnostic testings in India is still an out of pocket expense and is hardly covered by any of the prevailing insurance schemes in the market.

While the Insurance Regulatory and Development Authority of India (IRDAI) pegs the health insurance opportunity size at INR 3 lakh crore, the market size as on FY19-end stands under INR 50,000 crore. This highlights the industry's strong growth potential going forward. Life insurers mostly provide benefit policies for health protection, attached as riders to the base policy, although standalone policies have also been offered.

As per IRDAI, only 36 crore individuals had health insurance coverage, of which only 20% was via commercial insurance providers in the life and non-life space, as bulk of it comes from Central and state government-sponsored schemes. Private health expenditure is expected to rise significantly as life expectancy continues to increase. Till date, the lion's share of healthcare expenditure has come from out-of-pocket expenditure, which is the highest in India compared to its regional peers.

**Exhibit 30: Share of out of pocket expenditure
(as a % of total health expenditure) for Asian peers**



Source: Edelweiss Professional Investor Research

A multitude of factors — under-penetration, low government share of expenditure, rising life expectancy and higher healthcare cost — will be the key growth drivers in this segment.

Inclusion of diagnostic tests under insurance coverage could act as a booster shot

Besides the under-penetration of health insurance, India trails the world in outpatient department (OPD) and diagnostic tests coverage. As per various industry estimates, ~20% of total diagnostic services are being reimbursed via insurance claims, the rest is met by out of pocket expense. This is resulting in a significant section of the population opting for cheaper alternatives. The inclusion of OPD and diagnostic tests in insurance coverage in many Western countries had led to an inflection in the growth rate of the diagnostic industry. We expect a similar trends to emerge in India if such tests are covered by insurance policies.

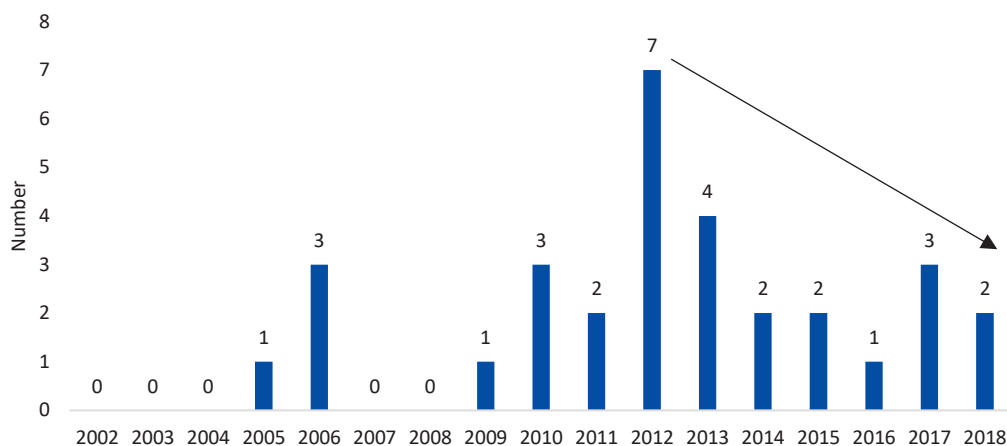
Large scale implementation of Ayushman Bharat can alter the growth trajectory

The Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PM-JAY) aims to provide healthcare facilities to the under-privileged. Rolled out by the Centre in September 2018, it is the largest health assurance scheme in the world and provides a health cover of INR 5 lakh per family per year for secondary and tertiary care hospitalisation to over 10.74 crore poor and vulnerable families (~50 crore beneficiaries) that form the bottom 40% of the Indian population. Since the launch of the scheme, more than 1 crore patients have been treated. As per estimates, an average expense of INR 15,000 per patient has been incurred, implying an expenditure of ~INR 15,000 crore. PM-JAY only reimburses inpatient cases, where the condition of patients requires admission to a hospital. With diagnostic spends being on an average ~20% of hospital bills, there has been some growth due to this scheme. As the scale of the scheme is further ramped up, we see significant growth traction for the diagnostic industry from government spends on healthcare.

IV. Competition softens with fall in private equity deals

Private equity (PE) players were very active in this space during 2011-15, but the number of deals is slowly softening. PE investments usually have a 5-7 year tenure. Payers backed by PEs typically focus of creating scale in the market or try to gain market share by pushing prices lower. The diagnostic sector is now relatively immune to price competition as we are observing a slowdown in PE deals.

Exhibit 31: Number of PE deals in Indian diagnostic lab companies



Source: Edelweiss Professional Investor Research

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Exhibit 32: PE investments in the Indian diagnostic industry

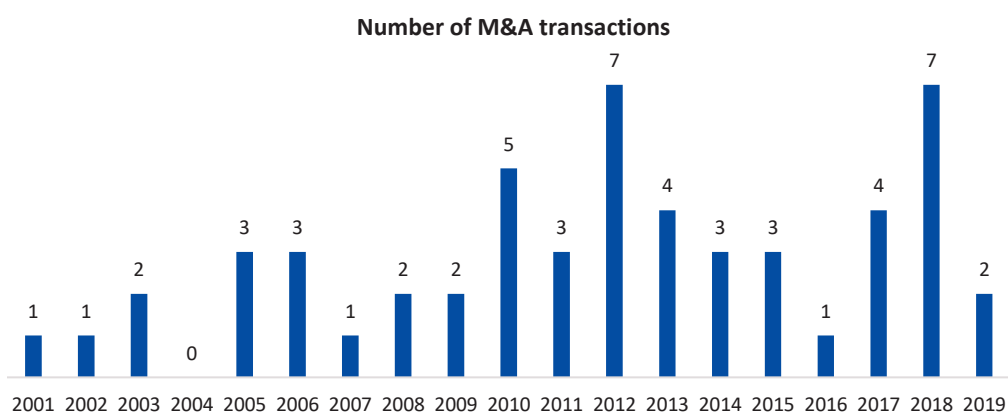
Year	Target	Acquirer	Deal Value (USD million)	Stake (%)
2005	Pathnet India Pvt Ltd	Healthscope Ltd		49%
2006	METROHL	ICICI Venture Funds Management Co Ltd	8	
2006	Thyrocare	Bennett Coleman & Co Ltd	7	
2006	Elbit Medical Diagnostics	Biotechnology Venture Capital Fund	2	
2009	MEDall Healthcare Pvt Ltd	Peepul Capital LLC	41	80%
2010	METROHL	Warburg Pincus LLC	85	27%
2010	DLPL	TA Associates Inc	35	16%
2010	Thyrocare	CX Advisors LLP	41	30%
2011	SRL	Avigo Capital Partners	22	9%
2011	SRL	Sabre Partners	11	4%
2012	SRL	Jacob Ballas Capital India Pvt Ltd	45	16%
2012	SRL	International Finance Corp-IFC	22	8%
2012	SRL	Avigo Capital Partners	4	
2012	Thyrocare	Norwest Venture Partners	23	10%
2012	Core Diagnostics	Artiman Ventures	5	
2012	Trivitron Healthcare	Fidelity India Capital	75	40%
2012	Suburban Diagnostics Pvt Ltd	Sequoia Capital	7	30%
2013	Nuclear Healthcare Ltd	Norwest Venture Partners	4	
2013	DLPL	WestBridge Capital LLP;TA Associates Inc	44	16%
2013	Suraksha Diagnostic Pvt Ltd	Lighthouse Funds, LLC	9	25%
2013	TechMed Healthcare	Matrix Partners		
2014	MedGenome Labs Pvt Ltd	Emerge Ventures	4	
2014	Sterling Diagnostics	Sterling Addlife	5	
2015	MedGenome Labs Pvt Ltd	Sequoia Capital	20	
2015	METROHL	Carlyle Group LP	140	37%
2016	Vijaya Diagnostic Center	Kedaara Capital	63	
2017	Core Diagnostics Pvt Ltd	Eight Roads Ventures; Artiman Ventures; F-Prime Capital	12	
2017	Suraksha Diagnostic Pvt Ltd	OrbiMed Advisors	40	30%
2017	iGenetic Diagnostics Pvt Ltd	Manipal Group; CDC Group plc	20	
2018	MedGenome Labs Pvt Ltd	Housing Development Finance Corp Ltd - HDFC	40	
2018	MedGenome Labs Pvt Ltd	Sequoia Capital India; Zodius Capital; Sofina SA	27	

Source: Edelweiss Professional Investor Research

National players gain market share through the inorganic route

National players are driving growth through acquisitions, business mix, by offering high end complex tests and competitive pricing. This inorganic expansion is the result of competitive pricing, lower scale of business and slowdown in PE investments. This mode of growth is one of the major vectors of market share gains for national players in this fragmented market. Global players like LabCorp and Quest Diagnostics in the US have also grown through acquisitions and this model is being followed by Indian diagnostic players. National players are more focused on Tier II, III cities for inorganic expansion.

Exhibit 33: M&A activity in the Indian diagnostic space



Source: Edelweiss Professional Investor Research

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Exhibit 34: M&A deals driving growth for national players

Year	Acquirer	Target	Target city	Deal value (USD million)	Stake (%)
2001	DLPL	Amolak Diagnostics Pvt	Udaipur		
2002	METROHL	Lister Laboratory		4	50
2003	DLPL	Sanya Chemicals Pvt	Mumbai		
2003	METROHL	Sudharma	Kerala		
2005	METROHL	Pathnet India Pvt			
2005	METROHL	Gribbles Pathnet India Pvt			
2006	METROHL	Golwilkar Pvt	Pune	36	
2007	Nicholas Piramal India	Jankharia Imaging			100
2008	METROHL	RV Diagnostics	Bengaluru		
2008	METROHL	Desai Diagnostics	Surat		
2009	DLPL	Medex Healthcare Pvt	Mumbai		
2009	DLPL	Paliwal Medicare Pvt	Kanpur		
2010	Super Religare Laboratories	Piramal Diagnostic Services Pvt	Mumbai	129	100
2011	Fortis Healthcare	Super Religare Lab	New Delhi	179	75
2011	Vijaya Diagnostic Centre	Vijaya Diagnostic Pvt	Visakhapatnam		
2012	METROHL	Dr Patel Metropolis Healthcare Pvt	Nasik		
2014	Vijaya Diagnostic Centre	Medinova Diagnostic Services	Hyderabad	3	36
2015	Medgenome	Medgenome	US	213	72
2015	Medgenome	Medgenome	US	23	98
2015	Suburban Diagnostics Centre	Medicare Labs	Mumbai	24	
2016	DLPL	Dr Bhanudas Yashwant Shinagare	Pune	13	
2017	DLPL	Delta Ria and Pathology Pvt	Bhopal	34	
2017	METROHL	Sanjeevani Pathology Lab	Rajkot	8	100
2018	DLPL	Dr Lal PathLabs Bangladesh Pvt	Bangladesh	18	70
2018	DLPL	Satya Pathology & Diagnostic Centre	-	20	
2018	Quest Diagnostic	Strand Life Sciences Pvt	Bengaluru		100
2018	Suburban Diagnostics Centre	Dr Patwardhan's Pathology Laboratory	Thane		
2018	Neuberg Diagnostics	Ehrlich Laboratory			
2018	Neuberg Diagnostics	Anand Diagnostic Centre	Bengaluru		
2018	Neuberg Diagnostics	Supratech Micropath	Bengaluru		
2019	DLPL	Bawankar Pathology	Udaipur	52	
2019	DLPL	Centrapath Labs Pvt	Indore		70

Source: Edelweiss Professional Investor Research

Diagnostic Sector

Sector Hypothesis

Opportunity from relatively weak regional or PE funded diagnostic labs

Exhibit 35: Top 10 diagnostic chains in India – Opportunity to become bigger (over INR 100 crore in sales)

Company (INR crore)	Year	Sales	EBITDA	EBITDA margin	PAT	PAT margin
DLPL	FY20	1,330	343	25.8%	225	17%
SRL	FY20	1,016	187	18.4%	81	8%
METROHL	FY20	856	233	27.2%	128	15%
Thyrocare	FY20	462	180	39%	119	26%
Medall	FY18	353	94	26.5%		
Vijaya Diagnostic Centre	FY19	288	103	35.8%	49	17%
Surksha Diagnostics	FY19	152	38	25%	17	11%
Suburban Diagnostics Centre	FY19	150	7.5	5%	0.06	0%
MedGenome	FY19	111	(11)	(9.9%)	(30)	(27%)
Aarthi Scans and Labs	FY19	101	25	25%	10	10%

Exhibit 36: Next top 8 diagnostic chains – Opportunity or competition? (Over INR 50 crore of sales)

Company (INR crore)		Sales	EBITDA	EBITDA margin	PAT	PAT margin
Spandan Pathology Laboratory	FY19	90	29	32%	9	10%
Oncquest Laboratories	FY19	81	(3)	(3%)	(5)	(6%)
PathCare Labs	FY19	70	5	7%	-	
Hitech Diagnostic Centre	FY19	69	15	22%	9	13%
Unipath Specialty Laboratory	FY19	68	7	10%	3	4%
Diagno Labs	FY19	66	(20)	(30%)	(36)	(55%)
Supratech Micropath Laboratory	FY19	63	17	27%	10	16%
Quest Diagnostics	FY19	51	(17)	(33%)	(19)	(37%)

Exhibit 37: Acquisition candidates that are struggling to survive and provide an opportunity to gain market share - (Sales between INR 15 crore and INR 49 crore)

Company (INR crore)		Sales	EBITDA	EBITDA margin	PAT	PAT margin
Expedient Healthcare Marketing (runs Healthians)	FY19	33	(26)	(79%)	(27)	(82%)
Sterling Lab	FY18	31	(7)	(21%)	(10)	(31%)
Core Laboratories	FY19	29	(18)	(62%)	(21)	(72%)
Neuberg Ehrlich Laboratory	FY19	27	1	2%	(2)	(7%)
Shree Jaya Laboratories	FY17	19	1	7%	0	1%
NG Industries	FY20	19	3	15%	2	8%
Elbit Medical Diagnostics	FY19	16	(5)	(29%)	(5)	(31%)

Source: Edelweiss Professional Investor Research

Diagnostic Sector

Sector Outlook

Sector Outlook

The diagnostic sector in India is highly fragmented with large chains, standalone centres and hospital-based laboratories. The lack of regulatory framework and minimum standard requirements led to low-entry barriers. However, limited test menu/offerings by regional standalone laboratories and partial coverage of hospital-based laboratories have resulted in higher opportunities for diagnostic chain players.

Diagnostic chains have the advantage of years of experience, brand trust and recall, global quality standards and accreditations, brand experience, expansive test menu, patient touchpoints to service patients locally, value-added offerings for patients and the ability to sustainably grow into newer markets. Pan India diagnostic players have been gaining market share continuously over the past few years on account of expanding collection centres and laboratory networks, which has helped them improve their asset utilisation. National diagnostic players would gain market share in coming years, especially post the COVID-19 pandemic, which would further lead to industry growth.

Why do we prefer METROHL?

- Play on both size as well as premiumisation
- Increasing share of business from specialised tests
- Relatively young PSCs/labs network to lead to spurt in growth in future
- Industry leading Return on Capital Employed (RoCE) and Return on Equity (RoE)

Exhibit 38: Valuation Table

Companies	M-cap (INR crore)	Rating	CMP (INR)	Target price	EPS (INR)			P/E (x)			RoE (%)	RoCE (%)	EV/EBITDA
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY22E	FY22E	FY22E
METROHL	9,094	BUY	1,791	1,982	25.2	23.8	34.9	71.1	75.3	51.4	28.4	34.0	31.9
DLPL	15,196	Hold	1,842	1,800	27.1	29.5	39.9	68.0	62.4	46.2	24.8	30.4	30.7
Thyrocare	4,245	Hold	803	650	17.5	13.7	21.7	45.9	43.2	34.9	26.4	34.1	22.0

Source: Edelweiss Professional Investor Research

Metropolis Healthcare Ltd

Long term compounder whose value is yet to be unlocked

Metropolis Healthcare (METROHL) is one of the largest diagnostic chains in western India, with the region accounting for over 50% of total sales. The management is focusing on increasing its business-to-consumer (B2C) presence by expanding its collection network. It has delivered healthy financials over the past 5 years, with a revenue; earnings before interest, tax, depreciation and amortisation (EBITDA); and profit after tax (PAT) compounded annual growth rate (CAGR) of 13/14/18%, respectively, with consistent EBITDA margin of ~27%. Incorporated by Dr Sushil Shah (Chairman), the company works on an asset-light model and earns a Return on Capital Employed (RoCE) of ~40%. Going forward, the challenges will be in retaining its patient service centres and expanding into other regions. The stock is trading at a steep valuation of 75/51/44x FY21/22/23E earnings, respectively, considering 11% adjusted earnings CAGR over FY20-23E. We have a 'BUY' rating with a target price of INR 1,982 per share, which offers 11% upside from its current market price. The company is a compounding story. It has made strategic expansions in the past, whose full potential will be unlocked in the coming future.

Dominant diagnostic player in the west, expanding to other regions: A long-term positive

The company is a dominant player in western India given its extensive coverage of tests and quality services. Currently, over 50% of its revenue accrues from this region, but the same has reduced from 56% in FY16. The management is aggressively increasing its presence in others regions by expanding its collection centres and laboratory network. The non-focus cities of the company has delivered sales CAGR of ~25% over FY17-20, led by a 4x rise in assisted referral centre (ARC) count to 598 (versus 150 in FY16). It remains committed to be a dominant B2C player in its focus cities.

Intense focus on raising its B2C sales contribution

B2C contribution from its focus cities has risen to 56% by FY20 from 45% in FY17 and is expected to touch 65%. The company has a patient service network of 2,731, up 6x over FY16-20. Its lab network grew 9% over FY16-20. METROHL has grown its existing individual patient touchpoints by 68% between FY17 and FY20. Its B2C segment registered 20% sales CAGR over FY16-20 and contribution touched 44% in FY20. The management is focusing on increasing its B2C contribution via aggressive network expansion, integrated brand building campaigns, raising awareness among doctors on its quality and service, and focus on customer experience and improvement.

Focus on B2B sales continues: Specialised test menu capabilities creates a leadership position

Historically, the company has focused on the B2B segment in its core market of Mumbai. It is now concentrating on its business-to-business (B2B) presence in its seeding and other cities through increase in its coverage of hospitals/clinics and via public-private partnerships (PPP). In its focussed cities, the management is looking to expand its B2C segment. In comparison to its peers, METROHL has one of the highest revenue contributions (56%) from the B2B segment (SRL Diagnostics: 43% and Dr Lal PathLabs: 33%). This is also reflected in its test mix, with specialised tests contributing 37% of revenue versus ~30% for DLPL.

Asset-light model

The company works on an asset-light model and clocks a RoCE of over 40%. Around 91.5% of its centres and 16.1% of its lab network are asset light. It added majority of labs in FY19 and FY20 through the lease model route, which is asset light and entails no capital requirement. METROHL has aggressively expanded its patient touchpoints through enrolment of third-party franchisees (88% of its patient service centres are third-party). It is working on a hub and spoke model and expanding its third-party collection centres. At present, 66% of its collection centres are third-party.

Outlook and valuation; initiate coverage with a BUY rating

We have valued the company on a price-to-earnings (P/E) basis given its presence in a high growth sector. The fragmented nature of this sector and large unorganised segment presents it with a huge opportunity size. Given the high growth longevity of the diagnostics industry, we value METROHL on a 10-year discounted cash flow (DCF). We have taken an average of DCF and P/E to arrive at our blended target price of INR 1,982 per share.

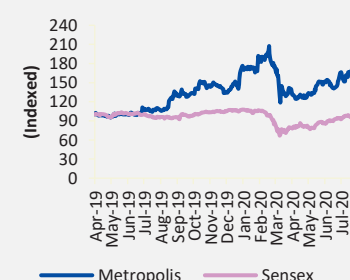
Praveen Sahay
Research Analyst
Praveen.sahay@edelweissfin.com]

CMP: INR 1,786

Rating: BUY

Target price: INR 1,982

Upside: 11%



Bloomberg:	METROHL:IN
52-week range (INR):	998/2,109
Share in issue (crore):	5.1
M-cap (INR crore):	9,050
Promoter holding (%)	50.81

Year to March (INR Cr)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	761	856	819	1014	1167
YoY growth (%)	17.6	12.5	-4.3	23.7	15.0
EBITDA	200	233	203	280	322
EBITDA margin (%)	26.3	27.2	24.8	27.6	27.6
Profit after tax	125	128	121	177	207
YoY growth (%)	11.8	22.0	-20.6	46.2	16.9
EPS (INR)	25	25	24	35	41
ROAE (%)	29.7	32.3	21.4	28.4	30.7
RoACE (%)	41.6	38.1	25.5	34.0	36.9
P/E (x)	72.7	71.1	75.3	51.4	43.9
EV/EBITDA (x)	44.6	38.3	43.8	31.9	27.6

Date: 25th August, 2020

Story in a nutshell

Exhibit 1: Indian diagnostic industry - INR 675 crore

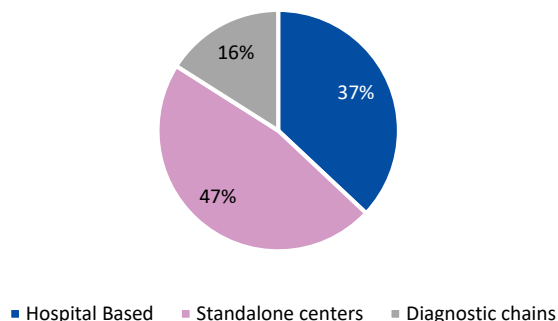


Exhibit 2: Indian diagnostic industry – Break-up

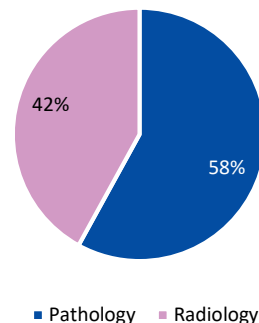


Exhibit 3: Major 3 national diagnostic players – Maintaining healthy growth momentum

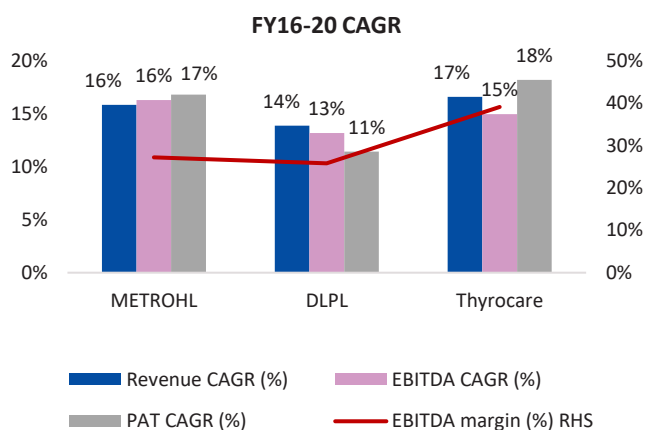


Exhibit 4: National diagnostic players – Sales growth (%)

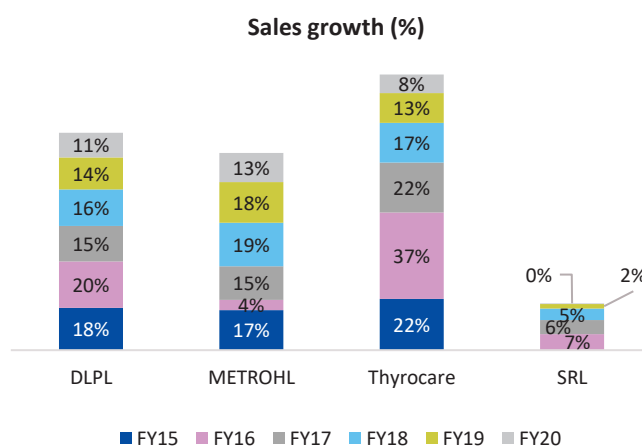


Exhibit 5: Realisation per test to improve with specialised tests

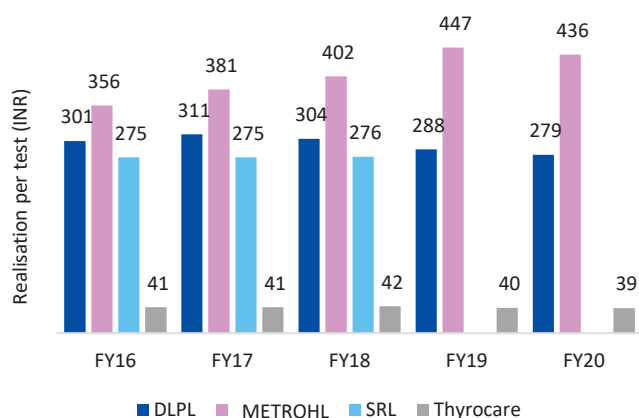
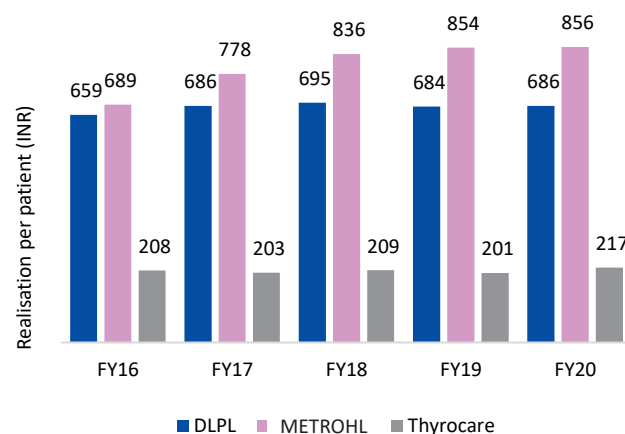


Exhibit 6: Realisation per patient reflects brand and quality



Source: Edelweiss Professional Investor Research

Metropolis Healthcare Ltd

Exhibit 7: Healthy sales growth...

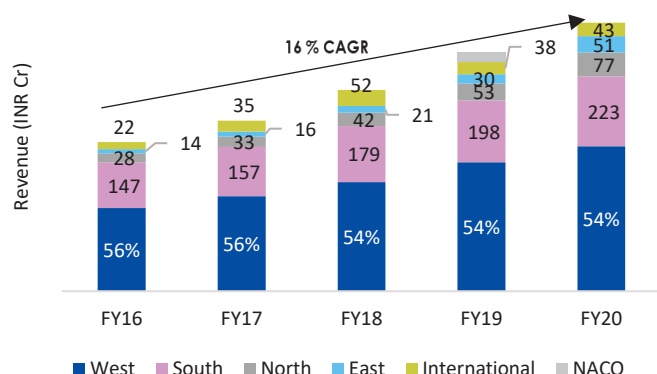


Exhibit 8: ...driven by B2C sales

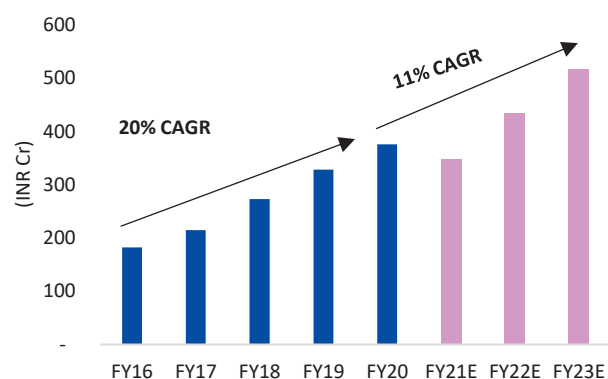


Exhibit 9: B2C sales driven through network expansion...

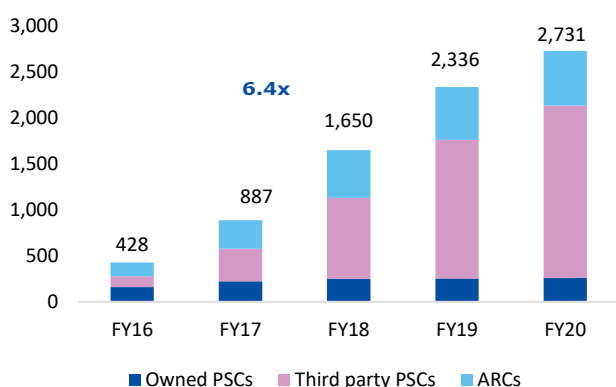
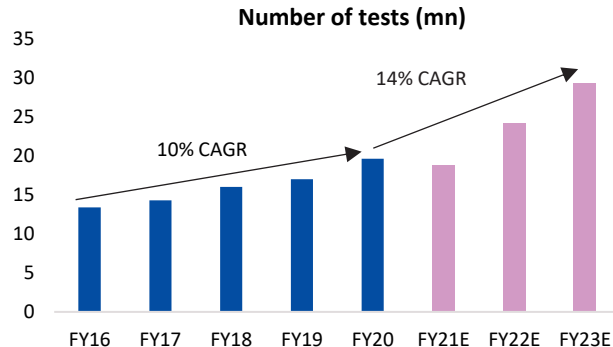


Exhibit 10: Continues to expand its test offerings



Improving revenue per test/patient

Exhibit 11: Maintains its high margin and RoCE

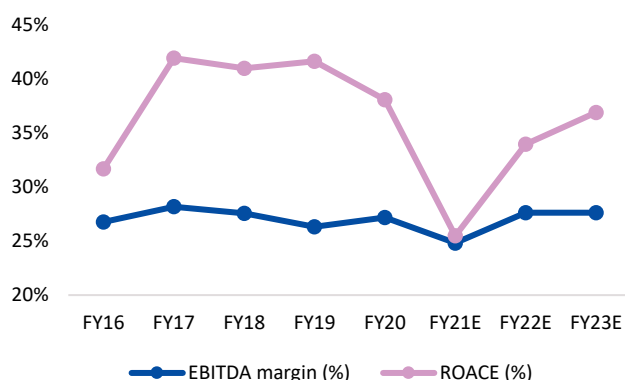
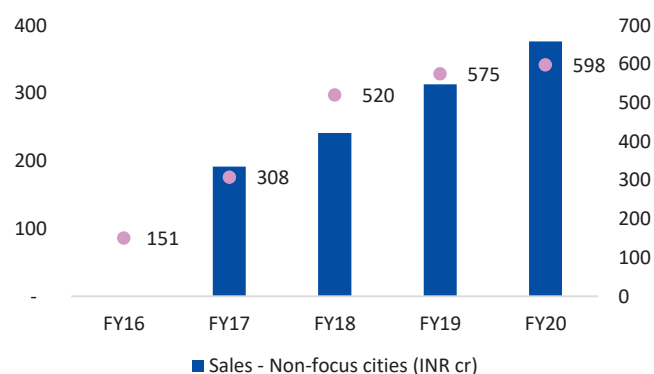


Exhibit 12: Sales from non-focus cities driven by ARCs



Source: Edelweiss Professional Investor Research

Metropolis Healthcare Ltd

Financials

Income statement

(INR crs)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Income from operations	761	856	819	1,014	1,167
Direct costs	185	217	220	258	296
Employee costs	176	190	188	223	257
Other expenses	376	407	396	476	548
Total operating expenses	561	624	616	734	844
EBITDA	200	233	203	280	322
Depreciation and amortisation	20	39	46	50	53
EBIT	180	194	158	230	269
Interest expenses	1	8	8	7	7
Other income	8	9	12	13	15
Profit before tax	188	194	162	237	277
Provision for tax	63	41	41	60	70
Core profit	125	153	121	177	207
Extraordinary items	-	-25	-	-	-
Profit after tax	125	128	121	177	207
Minority Interest	-1	-1	-1	-1	-1
Share from associates	0	0	0	0	0
Adjusted net profit	124	128	120	176	206
Equity shares outstanding (cr)	5.0	5.1	5.1	5.1	5.1
EPS (INR) basic	24.6	25.2	23.8	34.9	40.8
Diluted shares (Cr)	5.0	5.1	5.1	5.1	5.1
EPS (INR) fully diluted	24.6	25.2	23.8	34.9	40.8
Dividend per share	13	8	7	22	24
Dividend payout (%)	52.8	26.6	29.4	63.1	58.9

Common size metrics- as % of net revenues

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Operating expenses	73.7	72.8	75.2	72.4	72.4
Depreciation	2.6	4.6	5.6	4.9	4.6
Interest expenditure	0.1	1.0	0.9	0.7	0.6
EBITDA margins	26.3	27.2	24.8	27.6	27.6
Net profit margins	16.2	14.9	14.7	17.4	17.7

Growth metrics (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	17.6	12.5	(4.3)	23.7	15.0
EBITDA	12.3	16.2	(12.6)	37.7	15.0
PBT	14.9	3.1	(16.4)	46.2	16.9
Net profit	11.8	22.0	(20.6)	46.2	16.9
EPS	13.6	2.3	(5.6)	46.5	17.0

Metropolis Healthcare Ltd

Financials

Balance sheet

(INR Cr)

As on 31st March	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	10	10	10	10	10
Preference Share Capital	-	-	-	-	-
Reserves & surplus	409	513	591	633	692
Shareholders funds	419	523	601	643	702
Secured loans	17	67	67	67	67
Unsecured loans	0	-	-	-	-
Borrowings	18	67	67	67	67
Minority interest	1	2	2	2	2
Sources of funds	438	592	669	711	770
Gross block	271	394	429	464	494
Depreciation	58	98	144	193	247
Net block	213	296	286	271	247
Capital work in progress	6	3	-	-	-
Total fixed assets	219	299	286	271	247
Unrealised profit	-	-	-	-	-
Investments	33	14	76	130	170
Inventories	26	24	23	29	33
Sundry debtors	137	128	123	152	175
Cash and equivalents	80	210	227	210	238
Loans and advances	31	17	16	20	23
Other current assets	-	-	-	-	-
Total current assets	274	380	389	411	469
Sundry creditors and others	93	85	81	101	116
Provisions	14	12	12	12	12
Total CL & provisions	107	97	93	113	128
Net current assets	167	283	296	298	341
Net Deferred tax	1	12	12	12	12
Misc expenditure	18	-17	-	-	-
Uses of funds	438	592	669	711	770
Book value per share (INR)	83	103	119	127	139

Cash flow statement

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Net profit	125	177	121	177	207
Add: Depreciation	20	39	46	50	53
Add: Misc expenses written off	-9	35	-17	0	0
Add: Deferred tax	0	-11	0	0	0
Add: Others	-1	-1	-1	-1	-1
Gross cash flow	135	239	150	226	260
Less: Changes in W. C.	37	-14	-4	19	15
Operating cash flow	98	254	153	207	245
Less: Capex	31	120	32	35	30
Free cash flow	67	134	121	172	215

Metropolis Healthcare Ltd

Financials

Ratios

Year to March	FY19	FY20	FY21E	FY22E	FY23E
ROAE (%)	29.7	32.3	21.4	28.4	30.7
ROACE (%)	41.6	38.1	25.5	34.0	36.9
Debtors (days)	66	55	55	55	55
Current ratio	2.6	3.9	4.2	3.6	3.7
Debt/Equity	0.0	0.1	0.1	0.1	0.1
Inventory (days)	13	10	10	10	10
Payable (days)	44	36	36	36	36
Cash conversion cycle (days)	34	29	29	29	29
Debt/EBITDA	0.1	0.3	0.3	0.2	0.2
Adjusted debt/Equity	-0.1	-0.3	-0.3	-0.2	-0.2

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Diluted EPS (INR)	24.6	25.2	23.8	34.9	40.8
Y-o-Y growth (%)	13.6	2.3	(5.6)	46.5	17.0
CEPS (INR)	28.6	37.8	32.9	44.7	51.3
Diluted P/E (x)	72.7	71.1	75.3	51.4	43.9
Price/BV(x)	21.5	17.3	15.1	14.1	12.9
EV/Sales (x)	11.7	10.4	10.9	8.8	7.6
EV/EBITDA (x)	44.6	38.3	43.8	31.9	27.6
Diluted shares O/S	5.0	5.1	5.1	5.1	5.1
Basic EPS	24.6	25.2	23.8	34.9	40.8
Basic PE (x)	72.7	71.1	75.3	51.4	43.9
Dividend yield (%)	0.7	0.4	0.4	1.2	1.3

Dr Lal PathLabs Ltd

Acquisitions can fuel topline growth

Dr Lal PathLabs (DLPL) is one of India's premier diagnostic players that has a heavy business-to-consumer (B2C) presence and is positioned to benefit from favourable sector dynamics. Started in 1949, it provides a broad range of diagnostic and healthcare related tests and services through its integrated and nation-wide network. The company offers core testing, diagnosis and prevention, monitoring and treatment of diseases. Its customers include individual patients, hospitals and other healthcare providers, and corporate customers. DLPL's country-wide network comprises a national reference laboratory in New Delhi, supported by 216 clinical laboratories, ~3,095 patient service centres and over 6,995 pickup points. It has an exhaustive catalogue of tests and it keeps adding newer and more effective tests over time. The company employs over 4,000 personnel with ~60% of staff engaged in laboratory functions. At the current market price (CMP) of INR 1,845, the stock trades at 47x FY22E EPS.

Wide array of testing capabilities

Over the years, DLPL built a wide array of testing services through a catalogue of 455 testing panels that offers 2,537 pathology and 1,961 radiology and cardiology tests. It has a catalogue of both routine tests like biochemistry, hematology, clinical pathology, microbiology and basic radiology and specialised tests like molecular diagnostics flow cytometry genetics/cytogenetics histopathology. Initiatives like bundled test packages under 'SwasthFit' and targeted offerings like 'Sugar and Me' are also offered. The popularity of such offerings are growing as they provide greater value to patients, thereby leading to higher sampling.

Adopts volume-led growth strategy in the home market and pricing one in weaker geographies

DLPL is the market leader in the north and because of its strong brand recognition, its services are priced at a premium of ~20%. Over the last few years, it has not initiated any price hikes, with the management alluded to its strategy of volume growth driving revenue growth there. This strategy has increased the stickiness of patients to the brand without impacting margin much. Its growth strategy in central, eastern and western regions have been primarily pricing led. It has been charging ~20% lower rates than that charged in north India to capture market share and increase brand recognition. Over FY15-20, revenue share across geographies have changed significantly as the management has been focusing on reducing geographical concentration and gaining market share in lesser penetrated geographies of east, west and south India. Revenue share from the north decreased to 69% from 72%, whereas in the east it increased to 14% from 13%. In international markets, it rose to ~3% from 1%. Its increased presence in the east is encouraging as it is the fastest growing market and should help accelerate topline growth.

Robust Balance Sheet to facilitate acquisitions in a post COVID-19 scenario

The company has a robust Balance Sheet with INR 745 crore of cash and cash equivalents at the end of FY20 and no debt. The management has largely shied from actively pursuing inorganic growth opportunities as compared to its peers. Strong cash flow generation also provides DLPL with enough ammunition to target weaker unorganised players in a post COVID-19 scenario as they are likely to be significantly impacted by the pandemic. In the recent past, DLPL has acquired substantial stake in Indore-based Central Lab, Maharashtra-based Bawankar Pathology, Bhopal-based Delta Ria and Pathology Pvt, and Vadodara-based Amin's Pathology Laboratory, among others to penetrate the central and western part of India. Inorganic growth through acquisitions can further accelerate its topline growth.

Praveen Sahay

Research Analyst

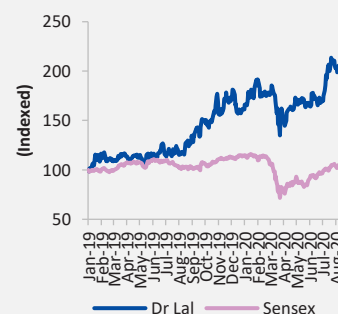
praveen.sahay@edelweissfin.com

CMP: INR 1,845

Target price: INR 1,800

Upside: NA

Rating: HOLD

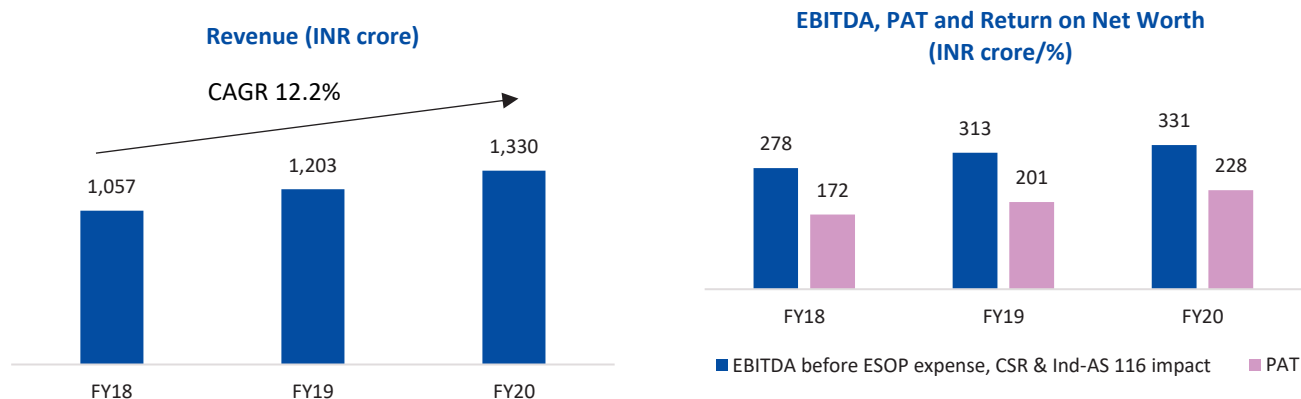


Bloomberg:	DLPL:IN
52-week range (INR):	1,061/2,029
Share in issue (cr):	8
M cap (INR cr):	15,377
Promoter Holding (%)	56.32

Date: 25th August, 2020

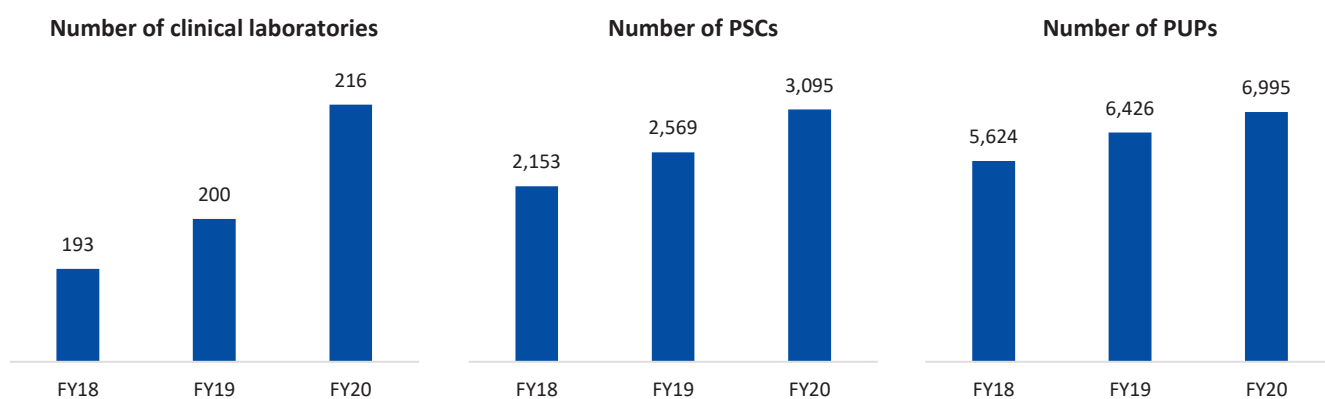
Year to March (INR Cr)	FY18	FY19	FY20	FY21E	FY22E
Revenue	1,056	1,203	1,330	1,396	1,646
YoY growth (%)	15.8	13.8	10.5	5.0	17.8
EBITDA	263	293	343	358	444
EBITDA margin (%)	24.9	24.3	25.8	25.6	26.9
Profit after tax	170	199	225	246	332
YoY growth (%)	10.4	16.5	13.4	9.1	34.8
EPS (INR)	20.5	23.9	27.1	29.5	39.9
ROAE (%)	24.6	22.9	22.7	21.7	24.8
RoACE (%)	35.1	31.4	32	27.1	30.4
P/E (x)	92.1	79	69.6	63.8	47.3
EV/EBITDA (x)	57.8	51.3	43.7	41.7	32.9

Exhibit 1: Revenue, EBITDA and PAT CAGR of 12.2%, 9.1% and 15.1%, respectively, led by...



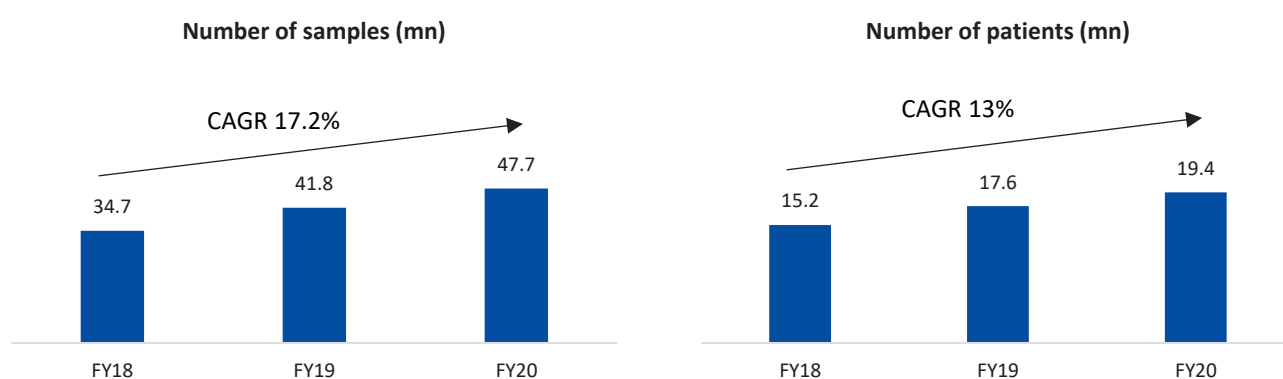
Source: Edelweiss Professional Investor Research

Exhibit 2: ...robust increase in the number of clinical labs, patient service centres (PSCs) and pickup points (PUPs)



Source: Edelweiss Professional Investor Research

Exhibit 3: Resulting in 17.2% and 13% CAGR in the number of samples collected and patients served, respectively



Source: Edelweiss Professional Investor Research

Financials

(INR Cr)

Income statement	FY18	FY19	FY20	FY21E	FY22E
Net Revenue	1,056	1,203	1,330	1,396	1,646
Income from operations	1,056	1,203	1,330	1,396	1,646
Medical consumables	226	262	298	328	378
Employee costs	180	208	242	242	271
Total SG&A expenses	386	439	445	467	551
EBITDA	263	293	343	358	444
EBIT	230	255	270	291	374
Interest expenses	-18	-28	15	-15	-31
Other income	12.22	16.74	55	25	40
Profit before tax	261	300	310	331	446
Provision for tax	89	100	82	82	111
Minority interest (before Core Profit)	1	1	1	1	2
Reported PAT	170	199	225	246	332
Adjusted PAT	170	199	225	246	332
Basic shares outstanding (mn)	8	8	8	8	8
Adjusted basic EPS (INR)	20.5	23.9	27.1	29.5	39.9
Diluted equity shares (mn)	8	8	8	8	8
Adjusted diluted EPS (INR)	20.5	23.9	27.1	29.5	39.9
CEPS (INR)	24.4	28.4	35.8	37.6	48.2
Dividend per share (INR)	3.1	5.4	8.1	8.8	11.9
Dividend payout (%)	15.4	22.7	30	30	30

Common size metrics	FY18	FY19	FY20	FY21E	FY22E
Materials costs (Common Size Metrics)	21.3	21.8	22.4	23.5	23.0
Employee expenses (Common Size Metrics)	17.1	17.3	18.2	17.3	16.5
Operating expenses (Common Size Metrics)	75.0	75.6	74.1	74.3	73.0
Depreciation (Common Size Metrics)	3.1	3.1	5.4	4.7	4.2
EBITDA margins (Common Size Metrics)	24.9	24.3	25.8	25.6	26.9
Net profit margins (Common Size Metrics)	16.2	16.6	17.1	17.7	20.3

Growth ratios (%)	FY18	FY19	FY20	FY21E	FY22E
Revenues Growth	15.8	13.8	10.5	5.0	17.8
EBITDA Growth	11.1	11.2	17.0	4.2	24.1
PBT Growth	10.3	14.9	3.3	6.6	34.8
Net profit Growth	10.4	16.5	13.4	9.1	34.8
EPS Growth	9.6	16.5	13.4	9.1	34.8

Financials

	(INR Cr)				
Balance sheet	FY18	FY19	FY20	FY21E	FY22E
Equity capital	83	83	83	83	83
Reserves & surplus	707	862	949	1,122	1,354
Shareholders funds	791	945	1,032	1,205	1,438
Minority interest (BS)	3	5	21	23	25
Long Term Liabilities & Provisions	7	1	93	49	67
Deferred Tax liability	-16	-21	-22	-22	-22
Sources of funds	785	930	1,124	1,255	1,508
Depreciation	33	38	72	66	69
Net block	179	180	201	245	256
Capital work in progress	9	3	11	11	11
Total fixed assets	189	184	212	257	267
Goodwill on consolidation	31	28	77	77	77
Non current investments	20	23	154	154	154
Long-term loans and adv.	37	20	14	41	24
Cash and equivalents	458	675	733	800	1,119
Inventories	27	28	57	23	59
Sundry debtors	41	53	51	71	73
Loans and advances	80	47	34	47	47
Other current assets	16	9	16	9	9
Total current assets (ex cash)	164	138	159	151	189
Trade payable	65	79	117	62	134
Others current liabilities	50	58	109	113	137
Total current liabilities & provisions	115	138	227	176	272
Net current assets (ex cash)	48	0	-68	-24	-83
Uses of funds	785	930	1,124	1,255	1,508
Book value per share (INR)	94.9	113.5	123.9	144.7	172.6
Free cash flow	FY18	FY19	FY20	FY21E	FY22E
Net profit (Free Cash Flow)	170	199	225	246	332
Depreciation (Free Cash Flow)	33	38	72	66	69
Interest (Net of Tax) (Free Cash Flow)	-11	-18	11	-11	-23
Others (Free Cash Flow)	-4	-9	-38	11	23
Less: Changes in WC (Free Cash Flow)	-9	-9	-12	43	-59
Operating cash flow (Free Cash Flow)	197	218	283	269	461
Less: Capex (Free Cash Flow)	72	41	78	80	80
Free Cash Flow (Free Cash Flow)	124	176	205	189	381
Cash flow metrics	FY18	FY19	FY20	FY21E	FY22E
Operating cash flow (Cash Flow Metrics)	197	218	283	269	461
Financing cash flow (Cash Flow Metrics)	12	-55	-190	-72	-97
Investing cash flow (Cash Flow Metrics)	-172	-99	-26	-150	-45
Net Cash Flow (Cash Flow Metrics)	37	63	67	47	318
Capex	-72	-41	-78	-80	-80
Dividend paid	-31	-55	-155	-73	-99

Financials

Profitability and efficiency ratios	FY18	FY19	FY20	FY21E	FY22E
ROAE (%)	24.6	22.9	22.7	21.7	24.8
ROACE (%)	35.1	31.4	32	27.1	30.4
Inventory day	36	38	52	45	40
Debtors days	14	14	14	16	16
Payable days	95	101	120	100	95
Cash conversion cycle (days)	-44	-47	-54	-39	-39
Current ratio	5.3	5.8	3.9	5.4	4.8
Net Debt/Equity	0.0	-1.0	-1.0	-1.0	-1.0
Interest coverage	-13.0	-9.0	17.6	-19.0	-12.0
Operating ratios	FY18	FY19	FY20	FY21E	FY22E
Total asset turnover (Operating ratios)	1.5	1.4	1.2	1.1	1.1
Fixed asset turnover (Operating ratios)	6.9	6.6	6.9	6.2	6.5
Equity turnover (Operating ratios)	1.5	1.3	1.3	1.2	1.2
Valuation parameters	FY18	FY19	FY20	FY21E	FY22E
EPS (INR) diluted	20.5	23.9	27.1	29.5	39.9
Y-o-Y growth (%)	9.6	16.5	13.4	9.1	34.8
Cash EPS	24.4	28.4	35.8	37.6	48.2
Diluted PE (x)	92.1	79	69.6	63.8	47.3
Price/BV (x)	19.8	16.6	15.2	13	10.9
EV/Sales (x)	14.4	12.6	11.4	10.9	9.2
EV/EBITDA (x)	57.8	51.3	43.7	41.7	32.9

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Rating	Expected to
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Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

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